

MINUTES

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD OF TRUSTEES

July 18, 2003

The meeting was called to order by Chairperson Bruce Burditt at 8:30 a.m., in the Retirement System boardroom, Topeka, Kansas.

Board members present:

- Bruce Burditt, Chairperson
- Michael Braude, Vice Chairperson
- Jarold Boettcher
- Liz Miller
- Lon Pishny
- Don Steffes
- Marjorie Lee Webb

Lon Pishny led the Board, staff and guests in the Pledge of Allegiance.

Organization of the Board

Jarold Boettcher made a motion to nominate Michael Braude for Board Chairperson for fiscal year 2004. Lon Pishny seconded the motion. Motion passed.

Mr. Braude appointed Liz Miller as Vice Chairperson. He requested that Board members express their interest in committee assignments. It was decided that a preliminary committee appointment list would be mailed out in 10 days.

Mr. Braude thanked Bruce Burditt on behalf of the entire Board for his outstanding leadership during the past year.

Laurie McKinnon administered the Oath of Office to all Board of Trustee members.

Mr. Steffes stated that similar to last year he has some concerns about the language in the oath of office, which states in part "...faithfully discharge the duties of my office as Trustee of the Kansas Public Employees Retirement System according to the standards provided by law, solely in the interests of the members, for the exclusive purpose of providing benefits to members and their beneficiaries." This oath is based on language in the KPERS statutes. He asked that the minutes reflect his opinion that the Trustees represent not only members but the taxpayers of Kansas.

Employee of the Quarter

Michael Braude recognized Pam Price as employee of the second quarter of 2003.

Public Comment

There was no public comment.

Approval of Minutes

It was moved by Liz Miller and seconded by Marjorie Lee Webb that the minutes of the meeting of May 16, 2003 be approved as submitted. Motion passed.

Executive Director's Report

The Chairperson recognized Glenn Deck, Executive Director. Mr. Deck made the following announcements: Judy Lambert has recently had knee surgery and is now at home recuperating, Leland Breedlove is back at work following back surgery, and Scott Sexton has been hired as staff attorney.

Mr. Deck reviewed the following major board issues: long-term funding, death and disability funding, the information system replacement project and investment issues.

Investment Operations

The Chairperson recognized Rob Woodard, Chief Investment Officer. Mr. Woodard reviewed the May 31, 2003 Performance Report. He reported that the Retirement System had a total return of 3.5 percent (not annualized) for the fiscal year-to-date and 0.1 percent for the twelve months ending in May. Mr. Woodard also reviewed preliminary numbers for June showing a fiscal year return of 4.0 percent.

The Chairperson recognized Scott Peppard, Deputy Chief Investment Officer. Mr. Peppard provided the Derivatives and Foreign Exchange Contracts Report for the two months ending June 30, 2003.

Mr. Peppard provided a report on emerging market investment authority for Morgan Stanley, and responded to Board questions with the assistance of Allan Emkin of Pension Consulting Alliance.

Liz Miller moved that Morgan Stanley's Investment Management Process statement be amended to allow investment of up to 10% of the market value of their portfolio in emerging market securities as outlined in the Statement of Investment Policy, Objectives and Guidelines. Don Steffes seconded the motion. Motion passed.

Death and Disability Fund Investment Policy Statement

The Chairperson recognized Rob Woodard who provided a report on the proposed Death and Disability Fund Statement of Investment Policy, Objectives and Guidelines and answered questions from the Board.

Liz Miller moved that the Board approve the proposed Statement of Investment Policy, Objectives and Guidelines for the Death and Disability Fund. Jarold Boettcher seconded the motion. Motion passed.

International Equity Enhanced Index

The Chairperson recognized Scott Peppard who provided an International Equity Enhanced Index Report and introduced Almond Goduti, Client Relationship Officer and Andy Olma, Investment Strategist with Barclays Global Investors. Mr. Goduti and Mr. Olma provided a report on Barclays' capabilities and international investment strategies. Rob Woodard and Allan Emkin responded to Board questions.

Liz Miller moved that the Board authorize staff to transition, at the discretion of the Chief Investment Officer, one-half of the current passive EAFE portfolio to an Enhanced EAFE Index strategy to be managed by Barclays Global Investors. Don Steffes seconded the motion. Motion passed.

Real Estate Committee Report

The Chairperson recognized Rob Woodard, Chief Investment Officer, who reviewed the Real Estate RFP process and the Real Estate Committee's interviews with the core real estate manager finalists.

Marjorie Lee Webb moved that the Board authorize staff and the Procurement Negotiating Committee to retain AEW Capital Management as the replacement for Lend Lease Real Estate Investments in providing core Real Estate Advisory services with the transition to occur as soon as practical. Don Steffes seconded the motion. Motion passed.

Marjorie Lee Webb moved that the Board authorize staff and Lend Lease Real estate Investments and its successor to implement the FY 2004 asset management plans as discussed. Don Steffes seconded the motion. Motion passed.

Marjorie Lee Webb, Chairperson of the Real Estate Committee recognized Bob Schau, Real Estate Investment Officer who provided a review of the REIT and the international real estate market. Marjorie Lee Webb noted the report on international real estate by Nori Lietz in the Board book.

Member Operations

The Chairperson recognized Renae Forque, Assistant Member Services Officer. Ms. Forque provided the monthly operations report and reported the status of the InfoLine and email responses, training on software for the new telephone system, weekly meetings with Minnesota Life Insurance Company, and the process of setting up regional meetings for designated agents and members regarding the enhancements to the Optional Group Life Insurance program.

Marjorie Lee Webb requested that Ms. Forque relay the Board's best wishes to Ms. Lambert for a speedy recovery.

Monthly Financial Report

The Chairperson recognized Leland Breedlove, Chief Financial Officer. Mr. Breedlove reviewed both the KPERS June 30, 2003 financial statements and the Treasurer's Unclaimed Property Fund June 30, 2003 financial statement.

Personnel Committee Report

Michael Braude provided a report of the Personnel Committee meeting on July 17, 2003.

Liz Miller moved that the Board adopt the Personnel Committee's recommendations for salary increases and FY 2003 management incentive compensation and expense payments for the Retirement System's unclassified personnel. Jarold Boettcher seconded the motion. Motion passed.

Audit Committee Report

Michael Braude provided a report of the Audit Committee meeting on July 17, 2003. Mr. Braude requested Glenn Deck comment on the status of the Internal Auditor position that is currently being advertised.

Information Systems Replacement Project

The Chairperson recognized John Oliver, Chief Information Officer. Mr. Oliver provided a presentation on the Information Systems Replacement Project and presented the project's status and timelines. Mr. Oliver responded to questions.

Appointment of Hearing Officer

The Chairperson recognized Laurie McKinnon, General Counsel. Ms. McKinnon reviewed the request for an administrative appeal by Gary Peterson.

Liz Miller moved that staff be authorized to contract with the Office of Administrative Hearings for assignment of a hearing officer at this time, for the purpose of hearing the administrative appeal of Gary Peterson. Bruce Burditt seconded the motion. Motion passed.

Review of Initial Orders

The Chairperson recognized Laurie McKinnon, General Counsel. Ms. McKinnon outlined the Board's options.

Liz Miller moved that the Board recess into executive session to discuss the Presiding Officer's Initial Orders in the David Bortka, David Cromwell, Carol Dahn and Carl Carlson II appeals. The Board would reconvene the open meeting in the

Retirement System Boardroom at 11:25 a.m. Lon Pishny seconded the motion. Motion passed. The Board went into executive session at 11:10 a.m.

The meeting reconvened at 11:25 a.m. Liz Miller made a motion that the Board adopt the Presiding Officer's four Initial Orders and direct the Executive Director to draft Final Orders containing the Board's decisions. The Final Orders are to be signed by the Chairperson and served on the parties by the Executive Director in accordance with the provisions of the Kansas Administrative Procedure Act. Lon Pishny seconded the motion. Motion passed. Marjorie Lee Webb abstained.

Future Board Meeting Schedule

Michael Braude reviewed the proposed FY 2004 Board meeting schedule and proposed that the October 2003 educational and planning meeting be held in Topeka at Washburn University.

Liz Miller made a motion that the Board adopt the proposed Fiscal Year 2004 meeting schedule. Jarold Boettcher seconded the motion. Motion passed.

13th Check and TIAA Bond Issue

The Chairperson recognized Glenn Deck, Executive Director. Mr. Deck provided a report on the authority of HB 2014 for issuance by the State of bonds to pay off the unfunded liability for the 13th check and TIAA groups. Mr. Deck responded to questions and provided copies of the draft Pledge of Revenues Agreement and HB 2014 for review.

Lon Pishny moved to adopt the Resolution subject to outside counsel's review to assure that KPERS has no liability and that the fund be simply used as a conduit and record-keeper. Liz Miller seconded the motion. Motion failed 4 - yes 3 - no (Burditt, Webb and Braude).

Additional discussion was held on the merits of review by the Board's outside counsel or outside bond counsel. Lon Pishny made the following motion: "I move to adopt the Resolution subject to review by the Board's outside counsel, Tom Murray, of the Pledge of Revenues Agreement to assure that KPERS has no liability and KPERS be used only as a conduit." Liz Miller seconded the motion. Motion passed 5 - yes 1 - no (Burditt) 1 - abstain (Webb).

Actuarial Valuation Report

The Chairperson recognized Pat Beckham, Milliman USA. Ms. Beckham presented the December 31, 2002 Actuarial Valuation Report and responded to questions.

Liz Miller made a motion that the Board approve the December 31, 2002 Actuarial Valuation Report and certify the employer contribution rates as specified in the report to participating employers. Jarold Boettcher seconded the motion. Motion passed.

Long-Term Funding

Michael Braude recognized Glenn Deck, Executive Director. Mr. Deck provided a report on the status of the long-term funding issue and the next steps in the review of the pension obligation bond option and development of a long-term funding plan. Mr. Deck and Rob Woodard responded to Board questions.

Informational Items

Michael Braude announced that the informational items included in the Board material were the litigation status report and an employer council meeting summary.

Old Business

There was no old business.

New Business

Michael Braude announced that the next scheduled Board meeting dates are September 18, and 19, 2003.

The meeting adjourned at 2:30 p.m.